

**Opening Statement of Chairwoman Sue Kelly
Oversight and Investigations Subcommittee
Hearing on “One Broker Gone Bad: Punishing the
Criminal, Making Victims Whole”**

Thursday May 23, 2002; 9:30 am; 2128 Rayburn

On January 11, 2002 Frank Gruttadauria, a Cleveland branch manager and broker, mailed a letter to the FBI admitting to fifteen years of willful fraud and theft of his clients' savings and disappeared. In the aftermath of this revelation, law enforcement, the regulators, the successive owners of that branch, and Gruttadauria's clients began to uncover the extent of this one broker's deceitfulness and the intricate web of lies he employed to perpetrate his fraud. We do know that Mr. Gruttadauria is accused of stealing at least \$40 million of his clients' savings while sending his clients fake statements stating that their savings had grown to an estimated combined total of \$260 million.

Today Mr. Gruttadauria is in federal custody after less than a month of being on the run. It appears that his efforts to evade detection by the firms and regulators were much better than his ability to evade the law. One issue is clear: Mr. Gruttadauria and any who assisted him will be punished for their crimes. From my initial review of this case Mr. Gruttadauria had the ability to perpetrate this fraud because of his position in the Cleveland branch as both the manager and a broker. This put him in the position of supervising himself -- a key point of this case.

Another key point is the lack of complaints in regard to Mr. Gruttadauria's actions. The majority of investigations against problem brokers appear to be triggered by five or more complaints. Since Mr. Gruttadauria was able to send false statements to his clients and forged any authorization he needed, he appears to have avoided scrutiny incurred through traditional warning signs.

The purpose of this hearing is to examine this case in an effort to determine what steps are warranted to ensure that similar fraud and theft is prevented. Our responsibility is to ensure that scams such as this will not go undetected again. In order to do this, we must take a step back from the particulars of this case and examine the systems that firms and regulators have in place to detect such fraud by manager-brokers. We know that the securities industry is full of very intelligent individuals who, if they put their mind to it, could potentially inflict a great deal of harm on the savings of many families and investors. To preserve and bolster investor confidence, we must gain an understanding of how the current systems were defeated so consistently by Mr. Gruttadauria.

I want to thank all of our distinguished witnesses for taking the time out of their busy schedules to join us here today. The committee understands the constraints that some of our witnesses are under and their inability to discuss some of the specifics of the case due to ongoing nature of the Gruttadauria investigation. The last thing we want to do is inadvertently harm the prosecution of Mr. Gruttadauria or any of his accomplices. We appreciate your willingness to come here today to discuss the issues to the best of your ability.